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Impact of changes in Service Sector in India in shaping the future of Business & Society

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Abstract

The government agencies group industries into four industrial sectors - agriculture (including forestry, fishing, poultry, etc.), mining, manufacturing and services. It can also be classified into three sectors i.e. the primary sector (agriculture, forestry, fishing and mining), the secondary sector (manufacturing) and the tertiary sector (services).

Until recently, the service sector was not considered as important as other sectors. However, this view of the service sector changed considerably, particularly in the 1980s, when it was realised that services consist of a large and significant component of modern economies - both industrial and post- industrial.

The service sector produces “intangible” goods. Some are well known and already existing viz. government, health, education and some are quite recent viz. communications, information technology, etc. Production of services tends to require relatively less **natural capital** and more **human capital** in comparison to agricultural or industrial goods. As a result, the demand has grown for more educated workers prompting countries to invest more in education bestowing an overall benefit to their people. Another benefit of the growing service sector is that by employing fewer **natural resources**, it puts less pressure on the local, regional and global

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environment.

In the early economies, the service sector was primarily underdeveloped because governments failed to respond to the growing demand for services. However with the shift to market economies, the service sectors have grown rapidly to meet the rising needs of the emerging private sectors. Growth of services is particularly important because it allows these economies to employ a share of the educated **labour force**. So, in addition to continued public support for health and education, growth of services can help countries preserve the stock of human capital that will be crucial to their development.

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1. Introduction to Service Sector

Everything that grows also changes its structure. Similarly, a growing economy also changes the proportions and interrelations among its basic sectors— **agriculture, industry, and services** and between other sectors— rural and urban, public and private, domestic- and export-oriented.

The structure of an economy can be seen by comparing its share between the three main sectors—agriculture, industry, and services in the country's total output and employment. Though agriculture is a developing economy's most important sector, but as the per capita income rises, agriculture loses its prominence giving way to the rise in the industrial sector and subsequently to the service sector. These two consecutive shifts are called **industrialization** and **post industrialization** (or “deindustrialization”). All growing economies are likely to go through these stages, which can be explained by structural changes in consumer demand and in the relative labour productivity of the three main economic sectors.

2. Industrialization

With the increase in people's income, their demand for food, the main product of agriculture reaches its natural limit, and they begin to demand relatively more industrial goods. As a result industrial output takes over a larger share of GDP than agriculture and employment in industry becomes predominant.

3. Post Industrialization

As incomes continue to rise, people's need becomes less “material” and they begin to demand more services especially in health, education, entertainment, and many other areas. This makes services more expensive relative to agricultural and industrial goods, further increasing the share of services in GDP. The lower

mechanization of services is also one of the reasons why employment in the service sector continues to grow while employment in agriculture and industry declines because of technological progress that increases labour productivity and eliminates jobs. Eventually the service sector replaces the industrial sector as the leading sector of the economy.

Services are distinguished from goods in that services are generally personalised and may be provided by an individual or an economic unit and which add to or improve another person's economic wellbeing. Thus we can say that the service sector is the lifeline for the socio - economic growth of a country. Being the largest and the fastest growing sector globally, it is contributing more to the global output and employing more people than any other sector. By the mid 1990s, services accounted for almost two-thirds of world GDP, up from about half in the 1980s. An efficient service sector is crucial for the growth and competitiveness of a country's economy.

4. Service Sector in India

The Services Sector constitutes a large part of the Indian economy both in terms of employment potential and its contribution to national income. This sector covers a wide range of activities from the most sophisticated in the field of Information and Communication Technology to simple services pursued by the informal sector workers, for example, vegetable sellers, hawkers, rickshaw pullers, etc. The following broad grouping of activities can be considered to form part of the Services Sector:

5. Activities Comprising the Service Sector

- (a) Trade
- (b) Hotels and restaurants
- (c) Transport including tourist assistance activities as well as activities of travel agencies and tour operators
- (d) Storage and communication
- (e) Banking and insurance
- (f) Real estate and ownership of dwellings
- (g) Business services including accounting; software development; data processing services; business and management consultancy; architectural, engineering and other technical consultancy; advertisement and other business services
- (h) Public administration and defence
- (i) Other services including education, medical and health, religious and other community services, legal services, recreation and entertainment services
- (j) Personal services and activities of extra-territorial organizations and bodies

Unlike many developing countries, the Indian economy so far has shown considerable resilience to the global

economic crisis by maintaining one of the highest growth rates in the world. The services sector accounted for around 88% of the growth rate in the gross domestic product in 2008–09.

The dramatic growth of the services sector in India reflects rapid strides made by the educated professionals. It is heartening to note that India is called the services hub of the world. The traditional perception of India stands changed today from being a land of beggars and snake-charmers of yesteryears to being a land of knowledge workers. The largest contributor to this change is the information technology enabled services and the business processing and outsourcing services (ITeS & BPO). They have already hit the shores of India with a boom. A number of sector specific measures have been taken up by the government of India to promote IT and ITeS and other sun rise sectors like telecom, organized retail, hospitality, entertainment, and financial service sectors. In the tourism front we are “Incredible India” and in the economic front, it is unmistakably “Opportunity India”.

However failures are also quite prominently seen, such as labor shortages in social service activities, which should be identified and confronted with a new basic assessment of the value of services and in particular social services. This study also emphasizes the role of women, which is concertedly visible in the happening world of today. A woman is treading every domain of activities with self-belief and proven competence. Her forays into the male monopoly of executive role in management affairs have registered a significant success in spite of so many constraints in her march to hierarchical positions.

According to **Jay Kandampully (2009)**, the service sector will play an important role in economic growth in developing countries like India. However, he said that as income levels increase, people will be able to afford more services while they will be spending this additional income on quality services such as education, health, travel, etc. On the other hand, small-scale entrepreneurs can step in to meet this need of the people for more and more services with growth in income levels and lifestyle changes while the service sector will provide more employment opportunities than manufacturing sector. Moreover, 80% of the employment opportunities in the U.S. are in the service sector whereas the three factors crucial to success for entrepreneurs in the service industry are customer focus, reliability and consistency of services.

During the last two decades it has been observed, in both developed and developing countries, that the service sector has emerged as the main driver of economic growth as compared to the primary and secondary sectors. As per **G. Ramakrishna's (2010)** reports: apart from growth in service sector; industry, agriculture and the open policies of 1990s also had a positive impact on India's economic growth though the service sector appears to contribute more. The sources of service sector growth in India appear to be income elasticity of demand, open policies and the growth in the other areas like communications, business, banking and insurance and trade services.

6. Objective of the Study

The specific objectives of the current study are:

- To Study the Growth and Development of Service Sector in India.
- To Study the Impact of Service Sector in Indian Economy.
- To study the Economic policy and implementation of Service Sector.

7. Research Methodology

The study is based on the secondary data from 1990 to 2012 which were collected from different published sources like: RBI Bulletins, Online Data, Research Journals, Articles, Newspapers, etc.

8. Contribution of the Service s sector to India's growth and Development

The services sector scenario in India is complex and is characterized by an uneven development in different types of services. From the global perspective, the growing importance of services sector within the Indian economy cannot be denied. India's GDP growth in 2008–09 was one of the highest in the world which reflected the resilience of the country's growth impulses to a severe external shock and demonstrated the impact India's policy response had on containing the adverse effects of the global economic crisis on its domestic growth.

The Services Sector has been the most dynamic sector of the Indian economy, especially over the last ten years. The growth in output in this particular sector in the recent times has mostly come from the rapid development of skill intensive services in the information technology and professional service segments. However not all services have shown equal dynamism in their growth. The star performer has been IT and IT enabled services while other services which do serve as a crucial input to working of the national economy have not developed as expected.

Table 1: Sectoral Shares in GDP (in %)

Year	Agriculture	Manufacturing	Services
1950-51	59.19	13.29	27.52
1960-61	54.74	16.61	28.65
1970-71	48.12	19.91	31.97
1980-81	41.82	21.59	36.59
1990-91	34.92	24.49	40.59
1991-92	34.08	23.93	41.99
1992-93	34.17	23.74	42.09
1993-94	33.54	23.69	42.77
1994-95	32.94	24.35	42.71

1995-96	30.58	25.47	43.95
1996-97	30.86	25.45	43.69
1997-98	29.03	25.20	45.77
1998-99	29.03	24.51	46.46
1999-2000	27.49	24.63	47.88
2000 – 01	24	20	56
2004 – 05	20	20	60
2009 - 10	15	28	57

Source: Economic Survey

Table 1 shows that since 1950, the share of agriculture in GDP has fallen drastically by more than two thirds, from 59% to 15%, whereas the share of manufacturing industry has increased from 13% to 28% and the share of services has nearly doubled from 28% to 57%. Growth in the Service Sector has continued to be broad-based. Among the three sub-sectors of services: hotels, transport and communication services have continued to boost the sector. Impressive progress in information technology (IT) and IT-enabled services, both rail and road traffic and quick addition to existing stock of telephone connections, particularly mobiles, have played a key role in such growth.

Table 2: Growth of different Sectors of the Economy

Different Sectors of Economy	2005 - 06	2006 - 07	2007 - 08	2008 - 09	2009 - 10
Agriculture, Forestry & Fishing	5.2	3.7	4.7	1.6	- 0.2
Manufacturing	9.6	14.9	10.3	3.2	8.9
Electricity, Gas & Water Supply	6.6	10.0	8.5	3.9	8.2
Construction	12.4	10.6	10.0	5.9	6.5
Hotels & Restaurants	12.4	11.2	9.5	5.3	8.3
Transport & Communication	11.5	12.6	13.0	11.6	
Social & Personal Services	7.6	2.6	6.7	13.9	8.2
Mining & Quarrying	1.3	8.7	3.9	1.6	8.7
Insurance & Real Estates	12.8	14.5	13.2	10.1	9.9
GDP at Factor Cost	9.5	9.7	9.2	6.7	7.2

Table 2 shows that agriculture is an exception where the growth rate is estimated to be minus 0.2 per cent in 2009 -10. Sectors including mining and quarrying, electricity, gas and water supply have significantly improved their growth rates at over 8 per cent. The construction sector and hotels, transport and communication have also improved their growth rates over the preceding years, though to a lesser extent. However, the growth rate of social and personal services has declined significantly. Insurance & real estates have retained their growth momentum at around 10 per cent in 2009-10.

India's economy has also successfully moved into a higher trajectory of growth and displayed strong

dynamism in selected sectors. This encouraging performance brightens the prospects for stepping up India's growth rate and improving the competitive edge in the years to come through further appropriate economic reforms.

This analysis shows that the main drivers of GDP growth have been mainly the communication services, and banking and insurance services and real estates.

9. Impact of Service Sector In Indian Economy

India has taken substantial steps towards economic liberalization during the last few years, having worked out strategies for bringing about rapid economic development. With the increasing standards in education, which in India is provided free of cost and compulsory till the age of 14 years by the Indian government, there will be increasing demand for educational services. The demand for primary schools, secondary and higher secondary schools, junior degree colleges are also higher, with the increase in population and an awareness of the benefits of seeking education. As the number of students goes on increasing, there is also increasing demand for tuitions, private coaching classes, etc. With the establishment of technical institutes, there is also an increase in demand for the services of professionally qualified people. With the increasing amount of trade and business covered by road, the demand for transport services have increased considerably with an added benefit to various automobile manufacturers as well.

Banking services are very necessary to meet the financial requirements of the public. The electric services provide benefits to the society, industry and so on. Adequate hospital services are essential for the well being of the society. Personal care services are also essential to develop a perfect personality and positive image projection of the people. Hospitality services (hotels & restaurants) satisfy their customers through their services in terms of comfort and satisfaction. The tourism industry is also gearing itself to make tourists enjoy the holiday in destinations of their choice, and take them away from the monotonous life of cities. The entertainment industry equally plays an important role towards this end. All these services rendered to the public only signify that they have unlimited potentialities and we have to explore these opportunities and tap them for our benefit.

10. Economic Policy and Implementation of Service Sector

Several major economic and political changes occurred during the 1970s and 1980s, which affected the developing countries and paved the way for the implementation of IMF sponsored Structural Adjustment Policies (New Economic Policy) in India in 1991. New Economic Policy of 1991 includes globalization, liberalization and privatization.

It is well known that from 1951 to 1991, Indian policy makers struck to a path of centralized economic planning. Post 1991, there were several measures undertaken by the government to develop services sector. Several other promotional measures were taken by the government to sustain the growth of the services sector. For example, having realized that in knowledge intensive world, driven by IT, integration with the global

economy cannot take place without making quality telecom services accessible at affordable prices. A large number of steps like launching of national Telecom Policy (1999), Broad Band Policy (2004) etc. were undertaken. In addition to this, a number of promotional measures have been taken up in IT and ITES segment, tourism, banking and insurance and real estate sectors.

11. Impact of Development in Society

Common Traditions

The development of information technology has influenced the common traditions of a society. The influence of information technology on religious practices has mainly been to the effect of making information about them more accessible.

Cultural Continuity

Social attitudes have changed with the effect that citizens of a society now expect the various elements of the society to be better informed than previously. They also expect to be able to access more information about a specific product, service or organization so that they can make informed decisions with regard to their interactions with that entity.

Institutions

The Information Technology in particular has “improved” the processes by which the institutions viz. Government, Commercial Businesses, News & Media organizations, Educational organizations accomplishes their task or goal.

12. Main Findings

There is no doubt that the service sector is by far the largest sector in the Indian economy.

- The service sector contributes some 80% in value added terms and 81% of employment.
- The sector is diverse ranging from highly technical services, such as in developing computer software, to the more mundane, such as hospital cleaning.
- The service sector employs a wide range of staff, including professionals from a large number of academic backgrounds.
- It is the sector which will provide the greatest opportunities in employment growth with export of services becoming increasingly vital to the future of the Indian economy.

13. Conclusion

Of all the service sectors which participated in this boom, growth was fastest in communications, banking, hotels and restaurants, community services, trade and business services. One of the reasons for the sudden

growth in the services sector in India in the nineties was the liberalization in the regulatory framework that gave rise to innovation and higher exports from the services sector. The agriculture sector contributed 17.2%; manufacturing industry contributed 29.1% while the service sector had a contribution of 52.7% according to 2008 estimates. The growth rate as seen in 2011 was 19.5% in IT-BPO services, 18.5% in exports and 22.8% in domestic IT related services. The growth in output in the sector in recent times has mostly come from the rapid development of skill intensive services in the information technology and professional service segments. The New Economic Policy includes reduction in government expenditure, opening of the economy to trade and foreign investment, adjustment of the exchange rate from fixed exchange rate system to flexible exchange rate system, deregulation in most markets and the removal of restrictions on entry, on exit, on capacity and on pricing. A shift in the consumption pattern of this nature indicates that the demand-side impetus to services growth will continue to get stronger in the years to come.

However, along with the growth of the service sector, the agricultural and industrial growth is also of paramount importance to meet the needs of the burgeoning world population.

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